

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Farwell	County Clare
Fiscal Year End 2/28/07	Opinion Date 8.20.07	Date Audit Report Submitted to State 8.21.07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

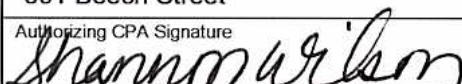
5
11
>
2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	Included in single audit reports	
Other (Describe)	<input checked="" type="checkbox"/>	Letter to Board (SAS 61)	
Certified Public Accountant (Firm Name) Weinlander Fitzhugh	Telephone Number 989-386-3481		
Street Address 601 Beech Street	City Clare	State MI	Zip 48617
Authorizing CPA Signature 	Printed Name Shannon Wilson	License Number 1101027042	



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

VILLAGE OF FARWELL CLARE COUNTY, MICHIGAN

FINANCIAL STATEMENTS FEBRUARY 28, 2007

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48617
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

RSM McGladrey Network

An Independently Owned Member

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3a-3l
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	4
STATEMENT OF ACTIVITIES	5
FUND FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS:	
BALANCE SHEET	6
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	8
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	9
PROPRIETARY FUND:	
STATEMENT OF NET ASSETS	10
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS	11
STATEMENT OF CASH FLOWS	12
NOTES TO FINANCIAL STATEMENTS	13-24

TABLE OF CONTENTS

	<u>PAGE</u>
REQUIRED SUPPLEMENTAL INFORMATION	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	25
BUDGETARY COMPARISON SCHEDULE – MAJOR STREETS FUND	26
BUDGETARY COMPARISON SCHEDULE – LOCAL STREETS FUND	27
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	28-29
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FUND AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMC CIRCULAR A-133	30-31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	32-34
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	35
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	36



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

INDEPENDENT AUDITORS' REPORT

August 20, 2007

Members of the Village Council
Village of Farwell,
Clare County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Farwell, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, the aggregate discretely presented component unit, and each major fund of the Village of Farwell as of February 28, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48617
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

RSM! McGladrey Network

An Independently Owned Member



WEINLANDER FITZHUGH

Members of the Village Council
Village of Farwell
August 20, 2007
Page 2

In accordance with Government Auditing Standards, we have also issued a report dated August 20, 2007 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Farwell's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

Our discussion and analysis of the Village of Farwell's financial performance provides an overview of the Village's financial activities for the fiscal year ended February 28, 2007.

Financial Highlights

The General Fund reported an increase in fund balance of \$30,485 resulting in a balance of \$761,946 at the end of the year. Ending fund balances for the Major and Local Street Funds were \$311,970 and \$75,803 respectively.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Village of Farwell financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Village, presenting both an aggregate view of the Village's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Government's operations in more detail than the government-wide financial statements by providing information about the Government's most significant funds – the General Fund, Major Streets Fund and Local Streets Fund. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the major Governmental Funds (Required Supplemental Information)

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

Reporting the Village as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Village's finances is, "Is the Village better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Village as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Village's net assets as a way to measure the Village's financial position. The change in net assets provides the reader a tool to assist in determining whether the Village's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of the Village.

In the Statement of Net Assets and the Statement of Activities, the Village is divided into three kinds of activities:

- Governmental Activities – Most of the Village's basic services are reported here, including the major streets fund, local streets fund, and general administration. Sales taxes (shared revenues), property taxes and franchise fees finance most of these activities.
- Business Type Activities – The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's water and sewer systems are reported here.
- Component Unit – The Village includes a separate legal entity in its report – Local Development Finance Authority. Although legally separate, this component unit is important because the Village is financially accountable for them.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

Reporting the Village's Most Significant Funds

Fund Financial Statements

The Village's fund financial statements provide detailed information about the most significant funds – not the Village as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Village's two types of funds, governmental and proprietary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Village's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Village's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Proprietary Funds

These funds are reported in the fund financial statements and generally report services for which the Village charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Village organization such as the water and sewer utilities.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

Government-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the Village as a whole. Exhibit A provides a summary of the Village's net assets as of February 28, 2007 and 2006.

<u>Exhibit A</u>	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 1,155,188	\$1,041,836	\$ 575,817	\$ 702,039	\$ 1,731,005	\$ 1,743,875
Capital assets - net of accumulated depreciation	328,134	377,134	3,198,656	2,764,511	3,526,790	3,141,645
Total Assets	1,483,322	1,418,970	3,774,473	3,466,550	5,257,795	4,885,520
Liabilities						
Current liabilities	5,469	12,885	59,620	177,042	65,089	189,927
Long-term liabilities	9,965	7,825	1,013,000	1,042,000	1,022,965	1,049,825
Total Liabilities	15,434	20,710	1,072,620	1,219,042	1,088,054	1,239,752
Net Assets						
Invested in property and equipment - net of related debt	328,134	377,134	2,151,816	1,689,475	2,479,950	2,066,609
Restricted	0	0	72,010	122,442	72,010	122,442
Unrestricted	1,139,754	1,021,126	478,027	435,591	1,617,781	1,456,717
Total Net Assets	\$ 1,467,888	\$1,398,260	\$2,701,853	\$2,247,508	\$ 4,169,741	\$ 3,645,768

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

Exhibit A , on the previous page, focuses on net assets. The Village's total net assets were approximately \$4.2 million at February 28, 2007. Capital assets, net of related debt, totaling approximately \$2.5 million compares the original costs, less depreciation of the Village's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of approximately \$72,000 are reported separately to show legal constraints from debt requirements and legislation that limit the Village's ability to use those net assets for day-to-day operations.

The \$1.6 million of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the Village as a whole are reported in the statement of activities. Exhibit B shows a summary of the changes in net assets for the years ended February 28, 2007 and 2006.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

Exhibit B

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue						
Program revenue:						
Charges for services	\$ 32,838	\$ 35,417	\$ 284,581	\$ 285,371	\$ 317,419	\$ 320,788
Grants and contributions	0	0	575,941	1,040,000	575,941	1,040,000
General revenue:						
State shared revenue	180,526	175,588	0	0	180,526	175,588
Property taxes	217,453	191,456	0	0	217,453	191,456
Interest income	19,725	14,328	26,481	20,218	46,206	34,546
Miscellaneous	2,623	66,318	0	0	2,623	66,318
Total revenue	<u>453,165</u>	<u>483,107</u>	<u>887,003</u>	<u>1,345,589</u>	<u>1,340,168</u>	<u>\$ 1,828,696</u>
Function/Program Expenses						
General government	97,710	83,004	0	0	97,710	83,004
Public safety	15,911	16,710	0	0	15,911	16,710
Public service	156,332	149,118	0	0	156,332	149,118
Highways and streets	109,429	109,814	0	0	109,429	109,814
Recreation and cultural	4,155	8,121	0	0	4,155	8,121
Water and sewer	0	0	432,658	271,886	432,658	271,886
Total expenses	<u>383,537</u>	<u>366,767</u>	<u>432,658</u>	<u>271,886</u>	<u>816,195</u>	<u>638,653</u>
Change in Net Assets	<u>\$ 69,628</u>	<u>\$ 116,340</u>	<u>\$ 454,345</u>	<u>\$ 1,073,703</u>	<u>\$ 523,973</u>	<u>\$ 1,190,043</u>

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

As reported in the statement of activities, the cost of all of our *governmental and business-type* activities this year was approximately \$816,000. Certain activities were partially funded by approximately \$317,000 from those who benefited from the programs, or by the other Villages and organizations that subsidized certain programs with operating grants and contributions of \$576,000. We paid for the remaining "public benefit" portion of our governmental and business-type activities with approximately \$217,000 in taxes, \$180,000 in State shared revenue and with our other revenues, such as interest and miscellaneous revenues.

The Village experienced an increase in net assets of approximately \$524,000 mainly due to the receipt of a grant for the waste water treatment plant.

The Village's Funds

The Village uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Village is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Village's overall financial health.

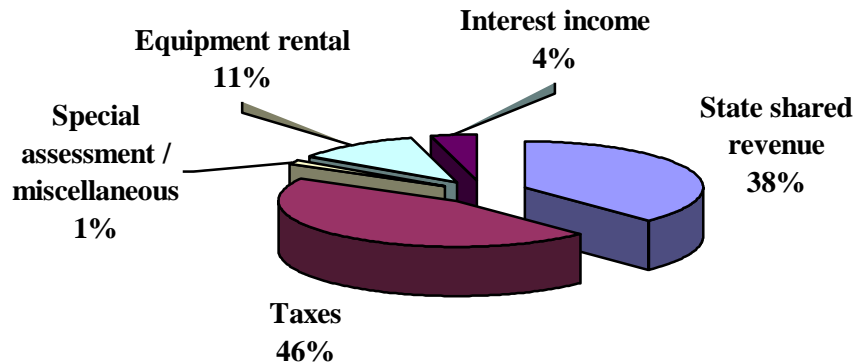
The Village's Governmental funds reported a combined fund balance of \$1.15 million which is up from last year's total of approximately \$1.03 million. The schedule below details the fund balance and the total change in fund balances as of February 28, 2007 and 2006.

	<u>Fund Balance</u> <u>February 28, 2007</u>	<u>Fund Balance</u> <u>February 28, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 761,946	\$ 731,461	\$ 30,485
Major Streets	311,970	250,603	61,367
Local Streets	75,803	46,887	28,916
Total	<u>\$ 1,149,719</u>	<u>\$ 1,028,951</u>	<u>\$ 120,768</u>

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

The graph below details the major sources of the Village's total governmental fund revenue.

The chart below compares current year revenues with last year.

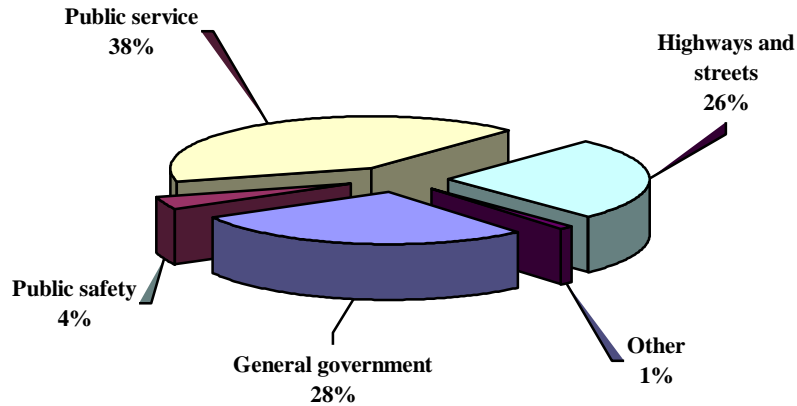


	2007	2006
<i>Revenues by Function</i>		
State shared revenue	\$ 180,526	\$ 175,588
Taxes	217,453	191,456
Special assessment / miscellaneous	6,223	22,210
Equipment rental	54,687	54,753
Sale of fixed asset	0	93,418
Interest income	19,725	14,328
Total	<u>\$ 478,614</u>	<u>\$ 551,753</u>

Revenues are down \$73,139 mainly due to the sale of the fixed asset in the prior year. Revenue also decreased for licenses and permits due to a payoff on the Superior Street special assessment in the prior year.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

The graph below details the governmental expenditure categories of the Village.



The chart below compares current year expenditures with last year.

	2007	2006
<i>Expenditures by Function</i>		
General government	\$ 100,656	\$ 76,401
Public safety	15,911	16,710
Public service	145,694	137,409
Highway and streets	93,928	123,738
Recreation and cultural	1,657	5,623
Total	<u>\$ 357,846</u>	<u>\$ 359,881</u>

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

Expenditures are down \$2,035 from the prior year. This change was due to an increase in salaries and wages and operating expenses which was offset by a decrease in road projects and park improvement expenses.

Business-Type Activities -The Village's Proprietary Funds shows the activity of the Water and Sewer Funds. The Water Fund reported net assets of \$794,190 and a net increase in net assets of \$36,590. The increase in net assets is mainly due to an increase in operating revenues and the receipts of a grant to improve the Illinois Street water main. These increases were offset by the cost to replace the Village's water meters. The Sewer Fund reported net assets of \$1,907,663 million and a net increase of \$417,755 million. The increase in net assets is mainly due to the receipt of a grant for the waste water treatment plant.

General Fund Budgetary Highlights

Over the course of the year, the Village revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Village's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

The final revenue budget increased from the original revenue budget due to increases expected in equipment rental and interest income.

The actual revenues were greater than budgeted because tax revenue was higher than anticipated due to higher taxable values within the Village. Also, there was an increase in equipment rental paid to the General Fund from the Major and Local Street Funds because of higher than expected winter maintenance and repair activities.

The final expense budget increase from the original expenditure budget due to Village hall improvements. The Village also increased the final budget due to extra costs associated with replacing the Village light poles and employee health insurance.

The actual expenditures were less than anticipated primarily due to delaying certain equipment and park improvements being delayed until the following year. Also, cost for training, professional services and dues were less than anticipated. Costs for repairs and maintenance and gas for vehicles was also less than originally anticipated.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

Capital Assets

At February 28, 2007, the Village had \$3.5 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and sewer and water systems. This amount represents a net increase (including additions and disposals) of approximately \$285 thousand or 10%, from last year.

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 22,000	\$ 22,000	\$ 163,844	\$ 163,844	\$ 185,844	\$ 185,844
Construction in progress	0	0	0	1,775,471	0	1,775,471
Land improvements	157,014	157,014	0	0	157,014	157,014
Buildings and improvements	245,881	239,798	8,265	8,265	254,146	248,063
Machinery and equipment	152,570	152,570	148,980	90,041	301,550	242,611
Vehicles	89,902	212,902	0	0	89,902	212,902
Water system	0	0	1,497,912	1,361,812	1,497,912	1,361,812
Sewer system	0	0	3,352,836	1,270,408	3,352,836	1,270,408
 Total capital assets	 667,367	 784,284	 5,171,837	 4,669,841	 5,839,204	 5,454,125
 Less accumulated depreciation	 339,233	 407,150	 1,973,181	 1,905,330	 2,312,414	 2,312,480
 Net capital assets	 <u>\$ 328,134</u>	 <u>\$ 377,134</u>	 <u>\$ 3,198,656</u>	 <u>\$ 2,764,511</u>	 <u>\$ 3,526,790</u>	 <u>\$ 3,141,645</u>

This year's additions of \$522,301 included the waste water treatment plant, the Illinois street water main, a sewer cleaner, a boat, accounting software, computer upgrades and Village hall improvements.

We do not anticipate any major capital additions in the next fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2007

Debt

At the end of this year, the Village had \$1.0 million in long-term debt outstanding versus \$1.1 million in the previous year. The Village's debt is comprised of general obligation bonds used by the sewer service fund and water service fund.

Factors Expected to Have an Effect on Future Operations

We expect to see a decline in state shared revenue next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust Village expenditures in response to any revenue shortfall.

Contacting The Village's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, contact the Village Treasurer/Clerk Office at PO Box 374, Farwell, Michigan 48622.

VILLAGE OF FARWELL
Statement of Net Assets
February 28, 2007

	Primary Government			Component
	Governmental	Business-Type	Total	Unit
	Activities	Activities		
<u>Assets</u>				
Cash and equivalents	\$ 989,932	\$ 450,120	\$ 1,440,052	\$ 54,406
Receivables (net)	26,641	59,586	86,227	0
Interfund balances	5,899	(5,899)	0	0
Due from other governmental units	47,204	0	47,204	364
Due from component unit	85,512	0	85,512	0
Restricted assets -				
cash and equivalents	0	72,010	72,010	0
Capital assets - less accumulated depreciation of \$2,438,120	328,134	3,198,656	3,526,790	892,238
Total assets	1,483,322	3,774,473	5,257,795	947,008
<u>Current Liabilities</u>				
Accounts payable	1,869	25,780	27,649	2,000
Deferred revenue	3,600	0	3,600	0
Accrued interest payable	0	4,840	4,840	0
Due to primary government	0	0	0	85,512
Bonds payable	0	29,000	29,000	3,638
Total current liabilities	5,469	59,620	65,089	91,150
<u>Long-term liabilities</u>				
Compensated absences	9,965	0	9,965	0
Bonds payable	0	1,013,000	1,013,000	30,923
Total liabilities	15,434	1,072,620	1,088,054	122,073
<u>Net Assets</u>				
Invested in capital assets				
net of related debt	328,134	2,151,816	2,479,950	0
Restricted for other purposes	0	72,010	72,010	0
Unrestricted	1,139,754	478,027	1,617,781	824,935
Total net assets	\$ 1,467,888	\$ 2,701,853	\$ 4,169,741	\$ 824,935

See accompanying notes to financial statements

VILLAGE OF FARWELL
Statement of Activities
For the Year Ended February 28, 2007

				Net (Expenses) Revenue and			
Functions/Programs	Expenses	Program Revenues		Changes in Net Assets			Component Unit
		Charges for Services	Capital Grants and Contributions	Primary Government			
				Governmental Activities	Business-Type Activities	Total	
Primary government:							
General government	\$ 97,710	\$ 29,238	\$ 0	\$ (68,472)	\$ 0	\$ (68,472)	\$ 0
Public safety	15,911	0	0	(15,911)	0	(15,911)	0
Public service	156,332	0	0	(156,332)	0	(156,332)	0
Highways and streets	109,429	3,600	0	(105,829)	0	(105,829)	0
Recreation and cultural	4,155	0	0	(4,155)	0	(4,155)	0
Total governmental activities	383,537	32,838	0	(350,699)	0	(350,699)	0
Business-type activities:							
Sewer	231,141	166,385	466,000	0	401,244	401,244	0
Water	201,517	118,196	109,941	0	26,620	26,620	0
Total business-type activities	432,658	284,581	575,941	0	427,864	427,864	0
Total primary government	\$ 816,195	\$ 317,419	\$ 575,941	(350,699)	427,864	77,165	0
Component unit:							
Local Development Finance Authority	\$ 50,912	\$ 0	\$ 0	0	0	0	(50,912)
General Revenues:							
State shared revenue				180,526	0	180,526	0
Property taxes				217,453	0	217,453	364
Interest income				19,725	26,481	46,206	0
Debt forgiveness by MEDC				0	0	0	335,612
Miscellaneous				2,623	0	2,623	0
Total general revenues				420,327	26,481	446,808	335,976
Change in net assets				69,628	454,345	523,973	285,064
Net assets - beginning of year				1,398,260	2,247,508	3,645,768	539,871
Net assets - end of year				\$ 1,467,888	\$ 2,701,853	\$ 523,973	\$ 824,935

See accompanying notes to financial statements

VILLAGE OF FARWELL
Governmental Funds
Balance Sheet
February 28, 2007

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Streets Fund</u>	<u>Total</u>
<u>Assets</u>				
Cash and equivalents	\$ 623,538	\$ 298,450	\$ 67,944	\$ 989,932
Receivables - net	18,003	6,769	1,869	26,641
Due from other governmental units	25,537	13,175	8,492	47,204
Due from other funds	11,208	0	0	11,208
Due from component unit	85,512	0	0	85,512
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 763,798</u>	<u>\$ 318,394</u>	<u>\$ 78,305</u>	<u>\$ 1,160,497</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 1,852	\$ 17	\$ 0	\$ 1,869
Deferred revenue	0	3,600	0	3,600
Due to other funds	0	2,807	2,502	5,309
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,852</u>	<u>6,424</u>	<u>2,502</u>	<u>10,778</u>
<u>Fund Balance</u>				
Unreserved	<u>761,946</u>	<u>311,970</u>	<u>75,803</u>	<u>1,149,719</u>
Total fund balance	<u>761,946</u>	<u>311,970</u>	<u>75,803</u>	<u>1,149,719</u>
Total Liabilities and Fund Balance	<u>\$ 763,798</u>	<u>\$ 318,394</u>	<u>\$ 78,305</u>	<u>\$ 1,160,497</u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
February 28, 2007

Total fund balance - governmental funds	\$ 1,149,719
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of the capital assets	667,367
Accumulated depreciation	(339,233)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences	<u>(9,965)</u>
Total net assets - governmental activities	<u><u>\$ 1,467,888</u></u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended February 28, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Total
<u>Revenues</u>				
State shared revenue	\$ 82,370	\$ 73,562	\$ 24,594	\$ 180,526
Taxes and penalties	179,569	18,942	18,942	217,453
Special assessments	0	3,600	0	3,600
Equipment rental	54,687	0	0	54,687
Miscellaneous	2,623	0	0	2,623
Interest income	15,154	2,744	1,827	19,725
Total revenues	334,403	98,848	45,363	478,614
<u>Expenditures</u>				
Current:				
General government	100,656	0	0	100,656
Public safety	15,911	0	0	15,911
Public service	145,694	0	0	145,694
Highways and streets	0	51,381	42,547	93,928
Recreation and cultural	1,657	0	0	1,657
Total expenditures	263,918	51,381	42,547	357,846
Excess of revenues over expenditures	70,485	47,467	2,816	120,768
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	20,000	26,100	46,100
Operating transfers (out)	(40,000)	(6,100)	0	(46,100)
Total other financing sources (uses)	(40,000)	13,900	26,100	0
Excess of revenues and other sources over expenditures and other financing uses	30,485	61,367	28,916	120,768
Fund balance - beginning of year	731,461	250,603	46,887	1,028,951
Fund balance - end of year	\$ 761,946	\$ 311,970	\$ 75,803	\$ 1,149,719

See accompanying notes to financial statements

VILLAGE OF FARWELL
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2007

Net change in fund balance - total governmental funds	\$ 120,768
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Capital outlay	6,083
Depreciation expense	(55,083)
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	
	<u>(2,140)</u>
Change in net assets of governmental activities	<u><u>\$ 69,628</u></u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Proprietary Fund
Statement of Net Assets
February 28, 2007

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and equivalents	\$ 155,361	\$ 294,759	\$ 450,120
Accounts receivable:			
Grants	26,000	0	26,000
Taxes	1,165	565	1,730
Customers	<u>21,634</u>	<u>10,222</u>	<u>31,856</u>
Total current assets	204,160	305,546	509,706
Noncurrent assets:			
Restricted assets -			
cash and equivalents	0	72,010	72,010
Capital assets less accumulated depreciation of \$1,973,181	<u>2,536,983</u>	<u>661,673</u>	<u>3,198,656</u>
Total Assets	<u><u>\$ 2,741,143</u></u>	<u><u>\$ 1,039,229</u></u>	<u><u>\$ 3,780,372</u></u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$ 25,780	\$ 0	\$ 25,780
Accrued interest	2,840	2,000	4,840
Due to other funds	2,860	3,039	5,899
Current portion noncurrent liabilities	<u>9,000</u>	<u>20,000</u>	<u>29,000</u>
Total current liabilities	40,480	25,039	65,519
Bonds payable	<u>793,000</u>	<u>220,000</u>	<u>1,013,000</u>
Total Liabilities	<u>833,480</u>	<u>245,039</u>	<u>1,078,519</u>
<u>Net Assets</u>			
Invested in capital assets -			
net of related debt	1,732,143	419,673	2,151,816
Restricted	0	72,010	72,010
Unrestricted	<u>175,520</u>	<u>302,507</u>	<u>478,027</u>
Total Net Assets	<u><u>\$ 1,907,663</u></u>	<u><u>\$ 794,190</u></u>	<u><u>\$ 2,701,853</u></u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Proprietary Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2007

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Operating Revenues</u>			
Charges for services	\$ 162,590	\$ 111,782	\$ 274,372
Rental income	0	4,550	4,550
Miscellaneous	3,795	1,864	5,659
Total operating revenues	<u>166,385</u>	<u>118,196</u>	<u>284,581</u>
<u>Operating Expenses</u>			
Personnel services	24,642	28,213	52,855
Supplies	1,609	2,245	3,854
Contractual services	9,927	10,005	19,932
Professional services	16,751	4,772	21,523
Utilities	39,251	11,866	51,117
Equipment rental	16,766	12,472	29,238
Repairs and maintenance	42,285	74,983	117,268
Other expenses	3,426	4,965	8,391
Depreciation	<u>42,087</u>	<u>39,163</u>	<u>81,250</u>
Total operating expenses	<u>196,744</u>	<u>188,684</u>	<u>385,428</u>
Operating income (loss)	<u>(30,359)</u>	<u>(70,488)</u>	<u>(100,847)</u>
<u>Nonoperating Revenues (Expenses)</u>			
Capital contributions	466,000	109,941	575,941
Interest income	16,511	9,970	26,481
Interest expense	<u>(34,397)</u>	<u>(12,833)</u>	<u>(47,230)</u>
Total nonoperating revenues (expenses)	<u>448,114</u>	<u>107,078</u>	<u>555,192</u>
Change in net assets	417,755	36,590	454,345
Net assets - beginning of year	<u>1,489,908</u>	<u>757,600</u>	<u>2,247,508</u>
Net assets - end of year	<u><u>\$1,907,663</u></u>	<u><u>\$ 794,190</u></u>	<u><u>\$ 2,701,853</u></u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Proprietary Fund
Statement of Cash Flows
For the Year Ended February 28, 2007

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Cash flows from operating activities</u>			
Cash received from customers	\$ 145,753	\$ 121,031	\$ 266,784
Cash payments to suppliers for goods and services	(245,509)	(118,436)	(363,945)
Cash payments to employees for services	(24,642)	(28,213)	(52,855)
Net cash provided (used) by operating activities	<u>(124,398)</u>	<u>(25,618)</u>	<u>(150,016)</u>
<u>Cash flows from capital and related financing activities</u>			
Acquisition and construction of capital assets	(381,098)	(136,100)	(517,198)
Proceeds from grant	466,000	109,941	575,941
Principal paid on long-term debt	(8,000)	(20,000)	(28,000)
Interest paid on long-term debt	(34,397)	(12,833)	(47,230)
Net cash provided (used) by capital and related financing activities	<u>42,505</u>	<u>(58,992)</u>	<u>(16,487)</u>
<u>Cash flows from investing activities</u>			
Interest income	<u>16,511</u>	<u>9,970</u>	<u>26,481</u>
Net increase (decrease) in cash and investments	(65,382)	(74,640)	(140,022)
Cash and investments - beginning of year	<u>220,743</u>	<u>441,409</u>	<u>662,152</u>
Cash and investments - end of year	<u><u>\$ 155,361</u></u>	<u><u>\$ 366,769</u></u>	<u><u>\$ 522,130</u></u>
<u>Reconciliation of Cash Flows from Operations</u>			
Operating income (loss)	\$ (30,359)	\$ (70,488)	\$ (100,847)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	42,087	39,163	81,250
Changes in operating assets and liabilities:			
Accounts receivable	(20,632)	2,835	(17,797)
Accounts payable	(57,325)	0	(57,325)
Retainage payable	(60,900)	0	(60,900)
Accrued other liabilities	(29)	(167)	(196)
Due to other funds	2,760	3,039	5,799
Net cash provided (used) by operating activities	<u><u>\$ (124,398)</u></u>	<u><u>\$ (25,618)</u></u>	<u><u>\$ (150,016)</u></u>

See accompanying notes to financial statements.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Farwell conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Farwell:

Reporting entity

Village of Farwell is governed by an elected seven-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented component Units – The component unit's columns in the entity wide financial statements include the financial data of the Local Development Finance Authority (LDFA). This unit is reported in a separate column to emphasize that they are legally separate from the Village. The LDFA serves all the citizens of the government and are governed by a board comprised of the Village's elected Council.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the Village.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

The Village reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Major and Local Street Funds – The Major and Local Street Funds account for the resources of the state gas and weight tax revenue that are restricted for use of major and local streets.

The Village reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the water distribution system.

Sewer Fund – The Sewer Fund accounts for the activities of the sewage collection system.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on property values assessed as of the same date. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash - \$72,010 of the Enterprise Fund's cash and equivalents is restricted for required bond reserves and construction projects (Note 9).

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, vehicles, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years

Compensated absences – It is the Village's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. All liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirement.

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Village of Farwell follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Village Clerk/Treasury submits to the Village's Council a proposed budget prior to March 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended, by the Village's Council throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the fund level, and are adopted on a basis consistent with the accounting policies used in preparation of the financial statements.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Major Streets Fund and Local Streets Fund are presented as Required Supplemental Information.

Excess of Expenditures Over Appropriations in Budgeted Funds – The LDFA component unit of the Village is currently operating under a deficit fund balance. The deficit has been financed by advances from the General Fund. It is the intention of the Village to repay the General Fund as lots are sold in the Industrial Park.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Village's deposits are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Equivalents	Restricted Cash Equivalents
Governmental activities	\$ 989,932	\$ 0
Business-type activities	450,120	72,010
	<hr/>	<hr/>
Total primary government	1,440,052	72,010
Component unit	54,406	0
	<hr/>	<hr/>
Total	<u>\$ 1,494,458</u>	<u>\$ 72,010</u>

The breakdown of deposits is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 1,566,393
Petty cash and cash on hand	<u>75</u>
Total	<u>\$ 1,566,468</u>

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2007, \$1,369,979 of the Village's bank balance of \$1,569,979 was exposed to custodial credit risk because it was uninsured and uncollateralized. Since the component unit participates in the government's common cash, the federal depository insurance is not specifically allocated to their balance.

The Village's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

NOTE 4 – CAPITAL ASSETS

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 22,000	\$ 0	\$ 0	\$ 22,000
Capital assets being depreciated:				
Land improvements	157,014	0	0	157,014
Buildings and improvements	239,798	6,083	0	245,881
Machinery and equipment	152,570	0	0	152,570
Vehicles	212,902	0	123,000	89,902
Subtotal	762,284	6,083	123,000	645,367
Less accumulated depreciation for:				
Land improvements	5,235	3,925	0	9,160
Buildings and improvements	125,072	7,381	0	132,453
Machinery and equipment	100,283	7,435	0	107,718
Vehicles	176,560	36,342	123,000	89,902
Subtotal	407,150	55,083	123,000	339,233
Net capital assets being depreciated	355,134	(49,000)	0	306,134
Governmental activities, total capital assets - net of depreciation	\$ 377,134	\$ (49,000)	\$ 0	\$ 328,134

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land	\$ 163,844	\$ 0	\$ 0	\$ 163,844
Construction in progress	1,775,471	356,844	2,132,315	0
Total capital assets not being depreciated:	<u>1,939,315</u>	<u>356,844</u>	<u>2,132,315</u>	<u>163,844</u>
Capital assets being depreciated:				
Buildings and improvements	8,265	0	0	8,265
Machinery and equipment	90,041	73,161	14,222	148,980
Water system	1,361,812	136,100	0	1,497,912
Sewer System	1,270,408	2,082,428	0	3,352,836
Total capital assets being depreciated	<u>2,730,526</u>	<u>2,291,689</u>	<u>14,222</u>	<u>5,007,993</u>
Less accumulated depreciation for:				
Buildings and improvements	4,428	169	0	4,597
Machinery and equipment	40,799	11,151	14,222	37,728
Water system	814,912	38,993	0	853,905
Sewer System	1,045,191	31,760	0	1,076,951
	<u>1,905,330</u>	<u>82,073</u>	<u>14,222</u>	<u>1,973,181</u>
Net capital assets being depreciated	<u>825,196</u>	<u>2,209,616</u>	<u>0</u>	<u>3,034,812</u>
Business-type activities, total capital assets, net of depreciation	<u>\$ 2,764,511</u>	<u>\$ 2,566,460</u>	<u>\$ 0</u>	<u>\$ 3,198,656</u>
<u>Component unit activities</u>				
Capital assets not being depreciated:				
Land	\$ 81,739	\$ 0	\$ 14,254	\$ 67,485
Capital assets being depreciated:				
Land improvements	950,458	0	0	950,458
Less accumulated depreciation for:				
Land improvements	97,208	28,498	0	125,706
Net capital assets being depreciated	<u>853,250</u>	<u>(28,498)</u>	<u>0</u>	<u>824,752</u>
Component unit activity, total capital assets, net of depreciation	<u>\$ 934,989</u>	<u>\$ (28,498)</u>	<u>\$ 14,254</u>	<u>\$ 892,237</u>

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 1,681
Public service	10,637
Highways and streets	40,267
Recreation and cultural	<u>2,498</u>
Total governmental activities depreciation expense	<u>\$ 55,083</u>
Business-type activities:	
Sewer	\$ 42,087
Water	<u>39,163</u>
Total business-type activities depreciation expense	<u>\$ 81,250</u>
Component unit activities:	
LDFA	<u>\$ 28,498</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of transfers made during the year ended February 28, 2007 are as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 96,720	\$ 0	\$ 0	\$ 40,000
Major Street Fund	0	2,807	20,000	6,100
Local Street Fund	0	2,502	26,100	0
Water Fund	0	3,039	0	0
Sewer Fund	0	2,860	0	0
Local Finance				
Development Authority	0	85,512	0	0
	<u>\$ 96,720</u>	<u>\$ 96,720</u>	<u>\$ 46,100</u>	<u>\$ 46,100</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to supplement projects within the street funds.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 6- LONG-TERM DEBT

A summary of the Village's long-term debt is as follows:

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<u>Primary Government</u>			
1979 Water Bonds, due in annual installments of \$20,000 through 2019, with an interest rate of 5.00%	\$ 260,000	\$ (20,000)	\$ 240,000
2005 Wastewater Treatment Plant Bonds, due in annual installments of \$8,000 to \$19,000, with an interest rate of 4.25%	<u>810,000</u>	<u>(8,000)</u>	<u>802,000</u>
	1,070,000	(28,000)	1,042,000
<u>Component Unit</u>			
State of Michigan Community Development Block Grant Program Revenue bonds, dated April 1, 2000, due in annual installments through May 2018, with no stated interest.	<u>372,902</u>	<u>(338,341)</u>	<u>34,561</u>
	<u>\$ 1,442,902</u>	<u>\$ (366,341)</u>	<u>\$ 1,076,561</u>

Long-term obligation activity can be summarized as follows:

	<u>Balance March 1, 2006</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance February 28, 2007</u>	<u>Amount Due Within One Year</u>
Bonds	<u>\$ 1,442,902</u>	<u>\$ 0</u>	<u>\$ 366,341</u>	<u>\$ 1,076,561</u>	<u>\$ 32,638</u>

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 6– LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ended February 28	Business-Type Activities		Component Unit Activities	
	Principal	Interest	Principal	Interest
2008	\$ 29,000	\$ 46,085	\$ 3,638	\$ 0
2009	29,000	44,703	3,638	0
2010	29,000	43,320	3,638	0
2011	30,000	41,938	3,638	0
2012	30,000	40,512	3,638	0
2013-2017	159,000	325,634	14,552	0
2018-2022	112,000	145,078	1,819	0
2023-2027	89,000	125,376	0	0
2028-2032	110,000	104,764	0	0
2033-2037	136,000	79,264	0	0
2038-2042	169,000	47,686	0	0
2043	120,000	10,372	0	0
Total	<u>\$ 1,042,000</u>	<u>\$ 1,054,732</u>	<u>\$ 34,561</u>	<u>\$ 0</u>

NOTE 7 – PENSION PLAN

The Village has a defined contribution pension plan that covers certain employees of the Village. The full-time employee is eligible to participate after 90 days of service. This Village contributed \$3,750 per employee for the year ended February 28, 2007. The total pension expense amounted to \$15,000 for the year ended February 28, 2007.

NOTE 8 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts and errors and omissions. The Village has purchased commercial insurance for claims relating to general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2007

NOTE 9– NET ASSETS - RESTRICTED

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve sufficient to provide for the payment of one half of the next interest payment due and one half of the next principal payment due on the 1979 bonds. This reserve has accumulated in the amount of \$13,500.

The Water Fund bond ordinances require minimum reserves to be set aside to the extent the fund reaches \$31,500 to be used for bond and interest redemption. This reserve has accumulated in the amount of \$31,500.

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve sufficient to provide for the payment of the next quarter's current expenses or administration and operation of the water system. This reserve has accumulated in the amount of \$19,510.

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve to the extent the fund reaches \$7,500 to be used solely for the purpose of making major repairs and replacements to the water system. This reserve has accumulated in the amount of \$7,500.

The Sewer Fund bond ordinances require a bond reserve account and a replacement reserve account until a total of \$44,000 and \$378,000 has been reached, respectively. The bond requires that \$4,400 and \$6,150 be set aside annually for the bond reserve and replacement reserve, respectively until the bond reserve reaches \$44,000 then the full \$10,550 will be set aside annually for the replacement reserve until the reserve reaches \$378,000. These reserves have accumulated in the amount of \$0. The Village was not required to deposit into the reserves until the project was finished, which was after February 27, 2007. During 2008 the Village of Farwell will set aside \$31,650 to catch up for the two years in which the project was in progress (\$21,100) and the annual payment for 2008 (\$10,550).

VILLAGE OF FARWELL
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended February 28, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 85,000	\$ 85,000	\$ 82,370	\$ (2,630)
Taxes and penalties	156,175	156,677	179,569	22,892
Equipment rental	43,000	50,214	54,687	4,473
Miscellaneous	950	950	2,623	1,673
Interest income	3,000	13,474	15,154	1,680
Total revenues	288,125	306,315	334,403	28,088
<u>Expenditures</u>				
General government	94,536	107,482	100,656	6,826
Public safety	16,217	16,217	15,911	306
Public service	172,715	179,095	145,694	33,401
Recreation and cultural	10,400	10,400	1,657	8,743
Total expenditures	293,868	313,194	263,918	49,276
Excess (deficiency) of revenues over expenditures	(5,743)	(6,879)	70,485	77,364
<u>Other Financing (Uses)</u>				
Operating transfers out	(30,000)	(40,000)	(40,000)	0
Excess (deficiency) of revenues over expenditures and other financing uses	(35,743)	(46,879)	30,485	77,364
Fund balance - beginning of year	731,461	731,461	731,461	0
Fund balance - end of year	<u>\$ 695,718</u>	<u>\$ 684,582</u>	<u>\$ 761,946</u>	<u>\$ 77,364</u>

VILLAGE OF FARWELL
Required Supplemental Information
Budgetary Comparison Schedule - Major Streets Fund
For the Year Ended February 28, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 68,400	\$ 70,125	\$ 73,562	\$ 3,437
Taxes and penalties	16,500	16,500	18,942	2,442
Special assessments	0	2,300	3,600	1,300
Interest income	1,500	2,738	2,744	6
Total revenues	86,400	91,663	98,848	7,185
<u>Expenditures</u>				
Highways and streets	192,330	54,849	51,381	3,468
Excess (deficiency) of revenues over expenditures	(105,930)	36,814	47,467	10,653
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	20,000	20,000	20,000	0
Operating transfers (out)	(6,100)	(6,100)	(6,100)	0
Total other financing sources (uses)	13,900	13,900	13,900	0
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(92,030)	50,714	61,367	10,653
Fund balance - beginning of year	250,603	250,603	250,603	0
Fund balance - end of year	<u>\$ 158,573</u>	<u>\$ 301,317</u>	<u>\$ 311,970</u>	<u>\$ 10,653</u>

VILLAGE OF FARWELL
Required Supplemental Information
Budgetary Comparison Schedule - Local Streets Fund
For the Year Ended February 28, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 21,000	\$ 21,000	\$ 24,594	\$ 3,594
Taxes and penalties	16,700	16,700	18,942	2,242
Interest income	1,000	1,000	1,827	827
Total revenues	38,700	38,700	45,363	6,663
<u>Expenditures</u>				
Highways and streets	60,950	52,089	42,547	9,542
Excess (deficiency) of revenues over expenditures	(22,250)	(13,389)	2,816	16,205
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	26,100	26,100	26,100	0
Excess (deficiency) of revenues over expenditures and other financing uses	3,850	12,711	28,916	16,205
Fund balance - beginning of year	46,887	46,887	46,887	0
Fund balance - end of year	<u>\$ 50,737</u>	<u>\$ 59,598</u>	<u>\$ 75,803</u>	<u>\$ 16,205</u>



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

August 20, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDING STANDARDS

Village Board
Village of Farwell
Clare County, Michigan

We have audited the financial statements of Village as of and for the year ended February 28, 2007, and have issued our report thereon dated August 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48617
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

RSM! McGladrey Network

An Independently Owned Member



Village of Farwell
August 20, 2007
Page 2

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2007-1 through 2007-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 through 2007-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards .

The Village's response to the findings identified in our audit are described in the accompanying schedule of findings and responses "or above" if findings and responses are included in the body of the report. We did not audit Village's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of management and the Village Board, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

August 20, 2007

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Village Board
Village of Farwell
Clare County, Michigan

Compliance

We have audited the compliance of Village of Farwell with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 28, 2007. Village of Farwell's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questionable costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Village of Farwell's management. Our responsibility is to express an opinion on Village of Farwell's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Village of Farwell's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Village of Farwell's compliance with those requirements.

In our opinion, Village of Farwell complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the ended February 28, 2007.

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48817
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

RSM! McGladrey Network

An Independently Owned Member



Village of Farwell
August 20, 2007
Page 2

Internal Control Over Compliance

The management of Village of Farwell is responsible for establishing and maintaining effective internal control over compliance with the requirement of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Village of Farwell's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was not for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Village Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VILLAGE OF FARWELL
Schedule of Findings and Questioned Costs
For the Year Ended February 28, 2007

SECTION II - Financial Statement Findings

2007-1

Criteria or Specific Requirement

Establish and maintenance of internal controls over the bank reconciliation process.

Condition

Personnel responsible for the completion of the bank reconciliation is not performing this task on a timely basis and does not maintain the skills necessary to reconcile unusual transactions without auditor assistance.

Criteria

Internal controls should be in place to monitor the timely and accurate completion of the bank reconciliation without auditor assistance.

Effect

The effect of this condition is that the Village Board does not receive timely and accurate information regarding the Village bank accounts.

Recommendation

The Village should review and implement the necessary education and procedural activities to monitor and complete the monthly bank reconciliations.

Views of the Responsible Officials and Planned Corrective Action

Currently the Village intends to implement such assistance needed to complete the bank reconciliation timely and accurately.

2007-2

Criteria or Specific Requirement

Establishment and maintenance of internal controls over the financial reporting process.

Condition

Personnel responsible for financial reporting do not possess the skills necessary to monitor and report annual financial activity without auditor intervention.

Criteria

Internal controls should be in place to provide reasonable assurance to the Village that the management possesses the skills necessary to monitor and report annual financial activity without auditor intervention.

Effect

The effect of this condition places a reliance on the independent auditor to be part of the Village's internal controls over financial reporting.

VILLAGE OF FARWELL
Schedule of Findings and Questioned Costs
For the Year Ended February 28, 2007

SECTION II - Financial Statement Findings (Continued)

Recommendation

The Village should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Views of the Responsible Officials and Planned Corrective Action

Currently the Village does not have the funding to implement such a program. We intend to re-evaluate once funding becomes available for the additional education and monitoring.

2007-3

Criteria or Specific Requirement

Establishment and maintenance of separation of duties over the cash collections and cash disbursements process.

Condition

Due to limited staff size, two individuals are essentially involved with the issuance of billings, collection of cash, check signing, bank reconciliation, transfers between bank accounts and responsibility for general ledger and utility activity postings.

Criteria

Internal controls should be in place to provide reasonable assurance to the Village Board that the management is correctly recording cash collections and cash disbursements.

Effect

The effect of this condition is that a misstatement would not be detected timely by management or the Village Board.

Recommendation

The Village should review and implement the necessary separation of duties and board oversight to lessen the effects of the lack of separation of duties.

Views of the Responsible Officials and Planned Corrective Action

Currently the Village does not have the funding to hire additional staff in order to have separation of duties. The Village Board intends to become more active in the oversight in the cash collections and cash disbursements as a compensating control for management.

SECTION III - Federal Award Findings and Questioned Costs

There are no matters reported.

VILLAGE OF FARWELL
Schedule of Expenditures of Federal Awards
For the Year Ended February 28, 2007

	Federal CFDA Number	Approved Award, Grant Entitlement Amount	Current Year Expenditures
<u>U.S. Department of Agriculture</u>			
Rural Development:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 2,395,000	\$ 466,000
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant:			
Water Main Improvement Infrastructure	Contract #		
Capacity Enhancement	MSC-205041-ICE	109,941	109,941
			<hr/>
			\$ 575,941
			<hr/> <hr/>

See accompanying notes to financial statements.

VILLAGE OF FARWELL
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended February 28, 2007

NOTE 1 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Village of Farwell and is presented in the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

August 20, 2007

Members of the Village Council
Village of Farwell
Clare County, Michigan

This letter is intended to inform the Village Council of Village of Farwell (Village) about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Village Council.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

The Auditor's Responsibility Under Generally Accepted Auditing Standards and OMB Circular A-133

Our audit of the financial statements of Village of Farwell for the year ended February 28, 2007 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

In planning and performing our audit, we considered Village of Farwell' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48617
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

RSM! McGladrey Network

An Independently Owned Member



WEINLANDER FITZHUGH

Members of the Village Council
Village of Farwell
August 20, 2007
Page 2

As part of obtaining reasonable assurance about whether Village of Farwell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Village of Farwell's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Village of Farwell's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Village of Farwell's compliance with those requirements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Audit Adjustments

There were audit adjustments made to the original trial balance presented to us to begin our audit. In our judgment, the adjustments we proposed, either individually or in the aggregate, are not considered to have a significant effect on the Village's financial reporting process.



WEINLANDER FITZHUGH

Members of the Village Council
Village of Farwell
August 20, 2007
Page 3

Accounting Policies and Alternative Treatments

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Village. The Village did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing related matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We incurred no significant difficulties in dealing with management in the performance of our audit.



WEINLANDER FITZHUGH

Members of the Village Council
Village of Farwell
August 20, 2007
Page 4

Other Comments

Adoption of the Local Development Finance Authority Budget

It was observed during our audit that the Village did not adopt a budget for the Local Development Finance Authority (LDFA) before March 1, 2006 as required by the State of Michigan, Department of Treasury, Uniform Budget Manual. The LDFA did adopt a budget during the year. In order for the LDFA to be in compliance with the State of Michigan, the LDFA will need to adopt a budget before each fiscal year.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Village of Farwell.

This report is intended solely for the information of the Village Council, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Weinlander Fitzhugh